



# **Enhanced Small and Medium Sized Enterprise Development Program**

## **Quarterly Performance Report**

**October 1, 2004 to December 31, 2004**

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## 1. Background

Winrock International, in partnership with Counterpart International, Center for Investment and Support (Prognoz), Sakhalin Association of Business People and Counterpart Enterprise Fund, is working to increase the number of successful small businesses and improve the environment for small businesses to emerge in the Russian Far East. Funded by the United States Agency for International Development, the Enhanced Small and Medium Sized Business Development Program (ESD) has four primary objectives:

- 1) Reduce the burden of regulations on SMEs by increasing SME association advocacy;
- 2) Increase the availability of credit for SMEs and entrepreneurs;
- 3) Provide and increase the availability of advanced business and sector-specific training skills; and
- 4) Build capacity of sector-specific associations by working through them to provide sector-specific consultancies.

In addition, the ESD Program is demand driven, ensures women and remote people benefit, and works to ensure collaboration between business support institutions and other businesses development projects with open and free information.

The project began August 1, 2003, and will continue until August 3, 2006. This report covers activities and results for the period from October 1 to December 31, 2004. It also provides a brief summary of annual results.

### Project Administration

The fourth Partners' Meeting was conducted December 12-13 in Vladivostok. ESD partners – Counterpart Enterprise Fund, Center “Prognoz”, Makon, the Far Eastern Chamber of Commerce, Sakhalin Association of Business People, and FECED as well as a prospective partner from Chita presented their activities and results to that date. The participants learned about how to evaluate the program impact and use this information for marketing purposes. Yulia Shevchenko from USAID/Moscow, Erin Hughes from Winrock International and Katherine Schad from Counterpart International were also present and participated in the discussions of various program issues.

New subagreements have been signed between Winrock International and Russian organizations – Enterprise Support Center Makon, Sakhalin Association of Business People, Russian Microfinance Center, and the Moscow Rural Fund. These organizations will implement work provide professional personnel and analysis in support of the objectives of the ESD Program.

Upon our partners' request, ESD provided training for accountants on October 28<sup>th</sup>. Training covered USAID and WI rules and regulations, financial reporting and program policies. This training has helped to find ways to streamline the reporting process.

## 2. Progress Indicators

### 2.1. Improving Regulatory Environment

#### 2.1.1. Activities in Regulatory Reform

The ESD Program works with each of its regulatory reform partners – SABP, Prognoz and Makon – to design interventions and to build their capacity achieve the goals of the ESD program. Counterpart International provides technical input and mentoring to each of our partners so that they can assess business associations; develop training and technical assistance plans to make the associations organizationally stronger; help them plan and conduct advocacy campaigns; work with government officials; and create strong networks of associations. SABP, Prognoz and Makon then help the target associations in each of their regions become stronger and better able to advocate. Counterpart also oversees the advocacy microgrants and all monitoring and evaluation. Counterpart is pleased to report on the following results and activities for the quarter:

During the last quarter of 2004, ESD partners in three targeted regions continued their efforts to improve the regulatory environment in Amur Region, Buryatia and Sakhalin. ESD, through our partners, teaches associations how to identify SME issues and to address them with the government through public advocacy. The partner associations are learning the skills and methods of lobbying and advocacy in order to cooperate with authorities in the future. Every partner identified administrative barriers in their region and focused on them. See below for details of advocacy activities that were conducted by partner associations.

In December two ESD partners – SABP and Prognoz conducted monitoring on the regulatory environment. This is the third assessment in the program timeline. Prognoz is analyzing the results and we expect them in January. SABP found the following results on Sakhalin. The results showed that **64.3% of all inspections were scheduled**. The number of unscheduled inspections was reduced by 2.34% (baseline December 2003). As for the **number of inspections by specific agencies, they were reduced as follows**: tax inspections by 4.22%, fire department inspections by 4.50%, labor safety inspections by 7.43%, and militia inspections by 4.44%. The results of the research proved that entrepreneurs did not have any problems with certification authorities. Most survey respondents also said that **since December 2003 the inspection process has become much more clear and predictable**.

On November 25, SABP participated in the Duma Advisory Council meeting where the deputies of the Sakhalin Regional Duma informed its members about acceptance of the Land Planning and Area Reclamation Rules with amendments. As mentioned in the last quarterly report, the Rules of Land Tenure were relatively hard to comprehend, were not in compliance with the applicable legislation, and provided for lengthy periods of legalization and allotment of land for businesses. These **new rules were a direct result of advocacy activities** carried out by a working group in the first year of the ESD program and are a major victory. It was noted that municipal legislation concerning area reclamation will be worked out in accordance with these rules and this will **simplify the property registration process, making it easier for SMEs to both obtain land and register their businesses**.

**Overall, five roundtables** were conducted with representatives of local association partners and government officials and **97 representatives** of associations were involved in these activities.

During the quarter, five roundtables were conducted throughout the Russian Far East. The **first roundtable** was conducted by the Ulegorsk Businessperson's Association on Sakhalin on "Relations between SMEs and Militia." A total of 15 representatives of SMEs, the administration and the militia department participated in this event. This was a follow-up to a roundtable conducted in June with the goal of discussing results achieved to date and outlining methods of future cooperation. During the roundtable participants noted that the **number of unofficial inspections by security authorities had been reduced** (by at least 3 percent using preliminary information). Based on a recommendation at the June roundtable by SMEs a hot line was set up, which they can call to report all the cases of unethical behavior by the militia. It is functioning very well. At the end of the roundtable participants decided to create a working group responsible for keeping militia inspections within the bounds of the law, follow-up on the Governor's resolution that militia representatives must fill in an inspection log and have additional roundtables or meetings to discuss continued results.

The **second roundtable** was conducted by SABP on "Quality Inspections of Corn from Other Regions." Representatives of Bread Quality Inspectors, the Trade and Industry Committee of Sakhalin Region, the Sakhalin Regional Antimonopoly and Business Support Ministry, and SMEs took part in this activity. The main problem was the fact that bread inspectors are not following the law on inspections. The law directs that there is no need to have additional inspections of corn products or flour-milling products. However, additional inspections are taking place and are costing SMEs both extra time and money. As a result of the roundtable the participants recommended that: SABP, on behalf of SMEs, should send an official request that procedures of sanitary control in Korakov Seaort follow the law and the Trade and Industry Committee should send an official request that officials follow the law regarding goods passing through customs.

As a follow-up to these two roundtables on Sakhalin, in December the SABP Director met with a Representative from the Federal Inspector's Office on Sakhalin. During the meeting she presented the results of the recent monitoring regarding the number of inspections of SMEs as well as minutes from roundtables on police and bread inspections. The Federal Inspector's Office discussed possible cooperation with SABP to continue to reduce number of inspections of SMEs to the level allowed by law.

On December 5-9 Makon ? in cooperation with Ulan-Ude city administration ? organized and conducted Entrepreneurial Week to foster entrepreneurship and small businesses. As a part of the week Makon **held the third ESD roundtable of the quarter, "Improving the business environment and overcoming administrative barriers."** This event became an excellent opportunity for businesspeople and officials to discuss problems and find solutions and to create good relations. During the roundtable the local administration presented the draft of a municipal program that would support entrepreneurship. Business association representatives received a copy of the program and they will share it with other members of their associations. Once reviewed, they will gather their comments and recommendations and bring them to the government.

In October Prognoz conducted a one-day **regional conference of Entrepreneurs**. A total of 191 people participated, including 84 SME representatives, 37 government and regulatory officials from Amur region, 26 members of 11 business associations, and 44 guests (university teachers, students of economic departments and others). **Two Roundtables (the fourth and fifth of the ESD program this quarter) were held at this event.** Topics covered included: interaction of business and government authorities, financial resources for SME development, and ways in which the Amur regional administration's policies can support SMEs. Conference participants created working groups to follow-up after the conference in order to **develop law initiatives that will assist in effectively developing entrepreneurship** and the club of business association leaders will **propose a concrete regional program for SME support to government**. Partners from Makon and SABP took part at the conference, shared their experiences in working with business associations and local government, and reported on local peculiarities.

**Two advocacy grants** were successfully implemented and finished, grant reports were sent to ESD office. The first grant report was reviewed and approved and the grant was closed. The second project's final report is under review now and will be discussed in the next quarterly report. The **first advocacy campaign microgrant project was successfully implemented** by the Amur Guild of Restaurateurs and Culinary and with Prognoz's guidance. During the first year of the ESD program the Guild learned about advocacy, and with this microgrant project they were able to put their learning to practical use. From August through October the Guild worked on improving the existing municipal leasing legislation since in the past the price to lease a municipal office was made arbitrarily by government officials. This was severely affecting SMEs' ability to rent office space and conduct business. Through the microgrant the Guild advocated for change so that the price would be based on a set of objective factors such as market price for similar offices and the condition of the office. Additional changes to the law include calculating the rent period based on the amount of investment to the property made by the renter and the rent income from municipal properties going to the city not middlemen. In order to make these changes the Guild's advocacy campaign included: conducting polls and consulting local SMEs followed by a roundtable between SMEs, business associations and legislative representatives, and local authorities. The Guild also engaged the mass media. The money from the microgrant was used to pay part of a consultant's salary, for printed materials to raise awareness and for the roundtable. **As a result of the campaign changes to the law were sent to the municipal Duma** of Blagoveschensk in October for consideration.

This quarter ESD approved **two advocacy microgrant applications** sent by SABP who will begin working on their **advocacy campaigns** in January. A third microgrant was awarded to the association in Nevelsk and the association will work with SABP on implementation. Based on local administrative rules, SMEs in Nevelsk District are faced with meeting three requirements for obtaining a trading license. This contradicts a Sakhalin law that specifically lays out the list of requirements for getting a license and prohibits requesting documents not included in the list. This is creating barriers for SMEs trying to do business on Sakhalin. The association plans to overcome this barrier by printing an article to raise awareness of key stakeholders, holding a roundtable to get stakeholders together to discuss the program and then submitting a resolution to the government to amend the regulations.

A fourth microgrant was awarded to the association in Uglegorsk and will also be implemented with SABP's assistance. In Russia SMEs need to send labor contracts for each employee to the local government and the government is supposed to register each contract and ensure that the SME follows labor regulations. The Uglegorsk District local government, however, has recently been protracting the registration period for an indefinitely long time, claiming that all of the contracts are poorly made. This causes SMEs to violate the Labor Code by employing people who aren't registered. The government then requires SMEs in violation to pay fines. To regulate this problem it is necessary to have a provision in the law that lays out all the steps of labor contract registration in accordance with the Labor Legislation. The Uglegorsk association, through the microgrant, plans to form an ad hoc working group, consisting of SMEs and the representatives of the municipal authorities. The ad hoc working group will develop a draft provision on the registration of labor contracts and it will be submitted to the government.

**Three important training seminars were held for business associations** this quarter. In October Makon held the training "**Strategic Marketing for Business Associations.**" Marketing for business associations, their missions, understanding stakeholders, and analysis of both the internal and external environment were all covered. After the training one of our partner associations, Union of Public Catering Enterprises, received a one-on-one consultation with the trainer. The trainer taught them how to perform and analyze market research in the creation of an expanded association and brainstormed with them on how to include new members and what kinds of services they could provide.

On November 25-26 SABP held the training "**Fundraising: how to prepare a successful advocacy grant application**" in Nevelsk. During the seminar the 12 participants reviewed the ESD Grant Manual and drafted four promising projects. On November 27-28 the same training was held in Uglegorsk for an additional 12 participants. During the training the participants came up with eight project ideas that have potential but need further development in order to become grant projects.

In November in Blagoveschensk the **Business Association Leaders' Club created a plan for future meetings** and the topics were correlated with the issues of the Oblast Duma meetings on SME development. At the meeting the Leaders' Club members were informed of the advocacy campaigns conducted by the Guild of Restaurateurs and the NGO "FAX" as well as other actions that the associations involved in the ESD program want to carry out. Leaders discussed how other associations can support the main association in carrying out the campaign.

## 2.2 Improving Access to Credit

Under the access to credit component, Counterpart International facilitates workshops especially for banks and leasing companies in addition to providing strategic direction and mentoring to Counterpart Enterprise Fund (CEF) which facilitates workshops for SMEs, non-bank financial institutions, and some banks. These workshops and trainings help financial institutions learn how to lend to SMEs profitably and teach SMEs how to access financing.

Counterpart achieved tremendous results in this quarter, due in large part to long-term cooperation with banks. The trainings that banks have been receiving from the ESD program have been consistently rated very highly and are beginning to affect real change. Specifically



there were **464 loans worth \$4,238,909** executed between SMEs and participating banks and non-bank financial institutions. This was achieved because of the training sessions that began in Year One and continued this quarter through the **8 additional training sessions** that Counterpart and CEF provided this period. These help banks and non-bank financial institutions understand how to practically and profitably lend to SMEs.

As for leasing, Counterpart provided access to **7** lease agreements worth **\$48,380** this quarter. These leasing agreements are mainly due to the fact that CEF has provided trainings to SMEs interested in learning how these agreements work and how to apply for a lease. Leasing companies have participated in some of our trainings for financial institutions but many have requested that we have more in-depth, leasing specific training sessions. To respond to that need, Counterpart has prepared a subagreement with North-West Leasing Association. This association will provide the specific training that leasing companies need in order to lend more profitably and more frequently to SMEs. Trainings are scheduled for both leasing companies and SMEs interested in leasing in Vladivostok and Sakhalin for next quarter. We expect that this will lead to an increase in the number and value of lease agreements.

#### Breakdown on loans and leases by type of financial institution

Financial Institutions Reporting	Total Loans	Loans to Women	Amount of Loans
SME Support Funds	20	12	\$101,798.6
Credit Cooperatives	261	140	\$764,532.8
Banks	183	112	\$3,371,978.4
Leasing Companies	7		\$48,380.8
	<b>471</b>	<b>264</b>	<b>\$4,286,690.6</b>

During the quarter CEF organized five workshops to promote access to credit. They were:

- On October 15-17, Counterpart Enterprise Fund, together with the Russian Microfinance Center, organized and conducted a seminar on **"Working with Collateral"** in Vladivostok. Twenty-five participants from 14 banks and non-bank financial organizations from Primorye, Khabarovsk and Buryatia attended. On October 19-21 the same seminar was held in Yakutia. Eleven participants from 8 organizations attended.
- CEF manager Elena Vasilieva conducted a training session on November 19 in Yakutia on **"Using Cash-flow Analysis to Determine SME's Financial Needs"**. The 19 SMEs in attendance learned how to project their needs for financing.
- On November 29 Yakutsk Business School organized a seminar on **"Leasing as a Form of SME Financing."** Nineteen SME representatives participated. "Sakhaleasing" company made a presentation and answered all questions connected with the terms and conditions of leasing agreements and explained how to prepare a leasing application.
- On November 10-11 a demo training of the new course **"Introduction to SME crediting for Banks: legal issues, financial analysis, collateral evaluation, SME appraisal, delinquency management and client relations"** was conducted for Sberbank in Khabarovsk. Twelve employees participated. After the demo training ESD senior manager Marina Petrova and ESD manager Elena Vasilieva met with Sberbank department superiors Svetlana Lesnyak and Svetlana Bitler and discussed how to

improve the training for the needs of Sberbank and how to take into account their particular activities to make the training more practical. They also planned for future trainings for Sberbank in Sakhalin and Primorye.

- On November 17-18 the Rural Fund held the first training in a series of five trainings scheduled for credit cooperatives in Chita. The first training was on **"Standards of credit cooperative activities (financial sustainability, liquidity, tolerable risk) and the basics of SME lending."** A more advanced credit cooperative from the area, "Zabaikalye," also helped with the seminar. Thirteen participants from 9 non-bank financial organizations participated in the training. With the help of "Zabaikalye" questions for the second seminar from all cooperatives will be collected until the middle of January 2005 and sent to ESD managers and Rural Fund trainers. These questions will help to customize the following seminars and make them more practical and useful.

During the quarter Counterpart organized three workshops for banks to promote access to credit. They were:

- Dalcombank is headquartered in Khabarovsk and has branches in Primorsky region and in Yakutia. The bank is already engaged in collaboration with CEF on SME crediting, which is why top management asked the ESD office to provide seminars for bank employees on **client relations with SMEs**. On October 23-24 17 bank employees (loan officers, head of clients departments) were trained at this two day seminar.
- ESD continues its series of seminars for Sberbank. On October 25-26 and 28-29, 22 employees of Sberbank branches in Primorsky region and Sakhalin participated in the **HR management** training. This seminar helped them bring to light problems and contradictions within the organization that hinder them from effectively lending to SMEs. During the seminar they drafted a HR policy for bank employees. The management of Sberbank plans to continue these consultations to improve the functions of the bank and increase lending to SMEs.
- In December Counterpart and CEF managers met with the Head of the Department responsible for all Sberbank branches. As a result of the meeting they developed a training plan for Sberbank employees on Sakhalin and in Vladivostok. Sberbank is well-known as a bank with a wide network of branches but it is also very bureaucratic and not organized well for clients. Now at least the Far Eastern Office has developed a new policy oriented toward SME lending. As a result, there is a tremendous need to train personnel in topics so they can lend to SMEs. The most important training topics are: communication with SME clients; financial analysis, taxation and financial documents for SMEs; and appraising SMEs.

The **replication of microfinance experience** was continued this quarter. CEF Director Aleksei Shumilov and Chief Accountant Alyona Krasnokutskaya prepared an initial business plan and financial forecast on development of microfinance activity for our partner "Pacific center for development of credit cooperatives (ANO)" in Vladivostok in October. In November Natalya Markelycheva, CEF credit manager, and Aleksei Shumilov worked with ANO to develop the details of the credit products that it will offer to SMEs, ANO credit policies, and job descriptions for employees working on SME lending.

Counterpart is also pleased to report on an example of collaboration between the first two program components. During the regional conference of Entrepreneurs in Blagoveschensk (as a part of the regulatory reform component) Irina Chaika, President of Association of Primorsky credit cooperatives, held a workshop on financial resources and possibilities for SMEs to receive credit. After her presentation several businesspeople became interested in creating a cooperative, which will help us achieve results for the second component. Primorsky Association actively participates in the credit component of ESD program.

### 2.3 Advanced Business and Sector-Specific Training

This quarter Winrock continued to work with its **five** major training partners and other regional training centers to expand availability of advanced and sector-specific training in Russia Far East. **Eighty** training courses for **1366** entrepreneurs were offered in all targeted regions in October-December 2004:

Region	Trainings			Participants		
	Adv.Bus	SSpecific	Total	Adv.Bus	SSpecific	Total
Amur Oblast	12	1	13	187	18	205
Buryatia	11	1	12	170	21	191
Chita Oblast	2	3	5	45	42	87
Khabarovsk Krai	16	4	20	276	68	344
Primorye	13	1	14	216	18	234
Sakha (Yakutia)	7	3	10	159	45	204
Sakhalin	5	1	6	86	15	101
<b>TOTAL</b>	<b>66</b>	<b>14</b>	<b>80</b>	<b>1139</b>	<b>227</b>	<b>1366</b>

#### 2.3.1 Advanced Business Skills Trainings Conducted

During October-December 2004, ESD supported its partners in providing **66** demand-driven advanced business skills training courses in the targeted regions for **1139** entrepreneurs. The ESD partners in Khabarovsk, Ulan-Ude, Vladivostok, Yakutsk and Blagoveschensk report that their capacity to provide quality trainings is growing, they have formed a stable base of clients and their image in the region has been strengthened. While ESD supports training centers to continue successful proven training courses, we encourage development and conduct of **new courses**. A **new training module** has been developed with ESD support. Vladivostok management expert, Denis Davydov, developed materials for training on “*Management under High-Risk Conditions*”. This material was developed for FECED and is currently available for any trainer from the ESD web site. FECED plans to use this module at the training in March 2005 utilizing a local trainer.

### 2.3.2 Sector-Specific Trainings Conducted

The ESD Partners continued to support key RFE industries, and in July-September 2004, the Program provided **14** sector-specific training sessions to **227** business people. ESD addressed needs of tourism, restaurant and transportation industries through sector associations.

**Tourism:** In Yuzhno-Sakhalinsk organized SABP a training for the in tourism for different companies involved in the sector. Local lawyer, Svetlana Portnova, explained legal aspects of documenting relationships between different organizations while creating a joint tourist product Olga, do you mean she explained contractual relations so these enterprises can subcontract to each other?– hotels, airlines, ground transportation companies and travel agents. Companies recognize the need to collaborate when they understanding the legal issues that drive or limit activity of any part of the tourist sector. **Eight** training participants highly evaluated the training materials and acknowledged its practical application.

In Yakutsk and Khabarovsk, the US volunteer Aaltje van Zoelen educated companies on marketing and strategic development of tourist companies. During the training in December, Aaltje explained current tendencies in the world tourism industry; revealed advantages of national peculiarities in designing tourist routes; touched upon marketing, management and advertising in tourism sector to **35** representatives of Yakutsk tourist companies.

**Restaurants:** Svetlana Dzalba from Novosibirsk provided a series of trainings and consultations to cafes and restaurants in Chita on attracting new customers. After this course, managers of some restaurants changed the design of their premises and introduced new technologies. This attracted new clients and resulted in increased sales. Now restaurant managers are regularly testing their waiters on how well they know the menu and are assigning them to specific posts according to the trainer's recommendations.

**Transportation:** The "Formation of logistical system of the company" training has been conducted in Vladivostok by a Russian consultant Erukaev on November, 19-20, 2004. The training has been addressed to managers and experts who deal with management of supply, stocks, movement of the goods and services. The primary goal of training was explanation of logistic system at the enterprise, ways and methods of optimization of the logistical operations connected with time and the financial resources, ways of reducing the costs connected with transportation and storage of goods. **Eighteen** representatives of the transport companies and transport departments of the large trading companies noted a high demand of practical skills in logistics in their companies.

### 2.4 Sector-Specific Consultancies

During the reported period ESD has increased the number of sector-specific consultations to RFE companies. Because these consultations are tailored according to individual companies' needs it ensures better results.

Here is the list of sector-specific consultancies provided in October-December 2004:

Date	Location	Theme	Consultant	# of People	# of SMEs
October 2	Khabarovsk	Consulting for Client	Eric Erlandsen	18	14

		Service Sector			
October 7	Chita	Design, New Techniques and Service in Catering	Svetlana Dzalba	17	11
October 13	Blagoveschensk	Training Service Advance	Galina Sakovitch	4	3
October 21	Ulan Ude	Restaurant Management	Aleksandr Zatulivetrov	21	5
October 28	Chita	Service in Catering	Svetlana Dzalba	12	7
November 3	Ulan Ude	Effective Communications for Tourist Companies	Roman Simutkin	3	2
November 12	Yakutsk	Hotel Business Management	Svetlana Dzalba	2	2
November 14	Chita	Increasing Profit Through Best Management Practices	Eddie Shannon	13	8
November 29	Vladivostok	Effective Participation in International Trade Shows	Aaltje van Zoelen	1	1
December 1	Vladivostok	Effective Participation in International Trade Shows	Aaltje van Zoelen	1	1
December 3	Khabarovsk	Effective Participation in International Trade Shows	Aaltje van Zoelen	2	1
December 5	Yakutsk	Effective Participation in International Trade Shows	Aaltje van Zoelen	1	1
December 9	Yakutsk	Design, Promotion, Marketing and Sales of Ecotours	Aaltje van Zoelen	12	12
December 15	Petropavlovsk - Kamchatsky	Effective Participation in International Trade Shows	Aaltje van Zoelen	2	1
December 21	Yakutsk	Improvement of Hospitality Services Taking Into Account Microbusiness Opportunities	Eddie Shannon	6	6
December 24	Yakutsk	Improvement of Hospitality Services Taking Into Account Microbusiness Opportunities	Eddie Shannon	6	6
TOTAL				121	81

U.S. volunteer Aaltje van Zoelen consulted with **five** tourist companies in Khabarovsk, Vladivostok, Yakutsk and Petropavlovsk-Kamchatsky to assist them with development of the right product and marketing materials that will be exhibited at the Chicago Travel Show in the

US on January 18-24. In her consultations, Aaltje touched upon various aspects of marketing the eco-tourist product to US clients, behavior mode at the show, cultural and psychological peculiarities of communication with prospective clients.

Although most consulting sessions have been conducted by US experts, ESD has increased its database of Russian consultants in sector-specific issues. We now have **12** local experts in the database, and plan to increase it in the next project period, as we want to concentrate more on sector-specific issues.

On October 21, **five** Ulan-Ude restaurants received consultations on issues of company positioning, selection of equipment, menu preparation. The consultants, A. Zatulivetrov, director of Greece tavern “Oliva”, Saint-Petersburg, and K. Basharova (Moscow volunteer) trained managers of restaurants and cafes some on how to work with clients. The participants gained skills on how to provide high quality service, satisfy requirements and anticipate expectations of the clients, conduct business, as well as how to choose equipment and how to set the table.

As a result of sector-specific consultancies, **six** companies increased their productivity, and **three** companies increased their profits by at least 10% during October-December 2004.

## 2.5 ESD Partners Institutional Development

ESD is committed to develop its local partners to increase their sustainability and ensure their viability after the program closes. As shown at the last Partners’ Meeting, all ESD partners believe that participation at the ESD project has improved their organizations’ image, increased clients base, brought in new skills and knowledge to their personnel and strengthened financial stability of their companies.

In order to reach its goals, the ESD Program has enhanced its efforts in **providing technical assistance to ESD partner organizations**.

During the conference in Blagoveschensk in October (that is described in section 2.1. of this report), ESD training partners received **professional consultations** on how to promote training services in their regions. Throughout this interactive session, participants exchanged many useful ideas about the clients’ recruitment and retention. After this session, partners managed to increase participation at the training courses by at least 20%.

Antonina Pronina, Program Manager from the Chamber of Commerce in Khabarovsk, whose duties include coordinating ESD activities, provided **consultations** to Sakhalin Association of Business People. She helped SABP to identify needs of tourist companies in the region and put together a training plan for them.

**Two trainings** have been provided to ESD partners during the Partners Meeting – one on evaluation of program impact, another one on effective communication with clients.

ESD supports partners in strengthening local resources and increasing the number of local trainers in the region through providing **training of trainers** seminars. **Four** TOT sessions have been conducted in the last quarter in Khabarovsk, Vladivostok, Yakutsk and Blagoveschensk. ESD partners have already started to use the trained experts for their courses – **five** local trainers have conducted trainings in the region: Sergey Vakhrushev and Irina Pakhno from Khabarovsk, Galina and Igor Sakovich from Blagoveschensk, Marina Radionova from Ulan-Ude, and Yulia Galaiko from Vladivostok.

Makon, Prognoz, CEF and SABP report that their organizations have become an “important part of the small business support structure” in their regions. They have become more visible and proactive in representing interests of business communities and advocating for their rights. Local governments have invited representatives of these organizations to be members of different bodies and committees that define strategic development of SMEs on krai and oblast level. CEF signed an agreement of cooperation with Dalcombank, and the Chamber of Commerce – with Sberbank. All these ties will remain after ESD, thus constituting **legacy** of the Program.

All training partners have improved and diversified their **services**. For example, Makon doubled the number of business trainings in 2004 as opposed to previous years; Prognoz now holds 4-5 trainings each month, while before ESD they used to conduct one training every two months; Business School in Yakutsk now offers seven types of seminars and trainings, as compared to two kinds in previous years. All partners have introduced a new and unique service to their regions – sector specific seminars and consultations. CEF has started a new direction of its activity – replication of their lending method to other organizations.

ESD partners have significantly increased their **client base** – due to trainings, the Far Eastern Chamber of Commerce enlarged its membership by 10%; Prognoz has taught about 1,000 people at its trainings, and most companies have become their constant clients; FECED’s mailing list has grown 4 times.

Partner organizations’ **personnel** have acquired new skills knowledge – managers from Makon, Prognoz, CEF have become trainers and provide courses and consultations to their clients. All partners have learned techniques of marketing their services, recruiting and keeping clients, evaluation of program results and writing success stories. They have learned to identify the clients’ needs and price their services according to the market demand.

Most partners declare increase of their **financial sustainability**. The most financially successful organizations are Prognoz, Makon and Business School. They have been not only constantly increasing the number of training courses but also managed to create a growing market that is ready to pay an appropriate price for quality services. For comparison, Prognoz started to charge 300 rubles for training in 2003, and now their training costs 2,000 rubles. Makon started from 150 rub and now their clients are ready to pay 1,500 – 2,000 rubles. This generates program income that allows to cover for organizational expenses (rent of room, copying of training materials, coffee breaks), and leaves funds for improving the company’s material base.

The ESD partners' activities in the last 12 months have started to be noticeable in their regions, and have started to **influence development of SMEs in Russia Far East**. Local mass media regularly publish materials about these organizations and their actions, local governments recon with their opinion, and business communities turn to them in difficult situations. **Twenty one** newly strengthened business associations together with the ESD partner organizations have created a strong lobbying alliance, more than **\$6 mill** generated in loans and lease agreements present significant growth of financial resources for SMEs, and more than **5,000** trained business people form a considerable army of well educated professional cadre that drive economic growth of the region.

## 2.6 Outreach and Communication

The ESD Program successfully **collaborates** with other USAID and donor projects in the region, as well as draws upon lessons learned from other project in other regions of Russia. For example, in October ESD COP met with the representatives of the World Bank Institute and discussed possible ways of collaboration between the two institutions. November 22, ESD presented its program, results and achievements to the new US Consul General Mr. Pommersheim. In December, ESD COP had meetings with the representatives from US Commercial Service Konstantinova, Soboleva, Borodina, Ilyina to discuss better ways of providing services to Russian companies in the region.

ESD partners publicize the Program and their activities in local SMEs and during meetings with local government representatives. For example:

- Before the October conference in Blagoveschensk, local leading newspapers "Amurskaya Pravda", "Dvazhdy Dva", "Komsomolskaya Pravda" organized an information campaign. After the conference, an article was published about results of ESD program in Amur. All TV channels and other newspapers published informational reports.
- On the 26 of October in the local newspaper "Business Ulan-Ude" the article was published saying about the training for managers of restaurant business and about the role of ESD program in organization of this training.
- On the 5<sup>th</sup> of November "Ostrova" Information Agency published the article "Sakhalin Association of Business People Participates in a Mega-project Devoted to Business Development in Russian Far East". The article is based on interview of SABP Leader T. Garshenina. It's devoted to structure, basis and work areas of ESD program. Also the business opportunities both in Sakhalin region and in other six regions, program partners, were revealed.

The ESD Program **website** continues to be updated. We publish training schedules, calendars of events, training materials and other resources on the web to ensure information exchange and collaboration between the project's partners. The new page appeared on the ESD website in December 2004 to promote Russian companies-participants of the Chicago Travel Show. The "Success Stories" section was updated in November, new stories have been added for the period from September to November 2004.

## 3. Problems/Difficulties Anticipated in the Next Three Months